Washington State Department of Retirement Systems
Employee Retirement Benefits Board

Regular Board Meeting
March 23, 2010
Minutes

Chair Steve Hill called the meeting to order at 9:35 a.m. Board members attending: Claude Burfect, Carol Jensen, Judi Owens, Maureen Ramos, Brian Talbott (by teleconference), Deirdre Walker and Kathy Whitlock.

Staff/resource personnel present: Assistant Attorney General Anne Hall, Kris Heurich, Phil Paroian, Marcie Frost, Jeff Wickman, Dave Nelsen, Cathy Cale, Brian Berghoff and Wilma Eby. (Names of other attendees are not included in the minutes but are listed in the permanent record.)

A-1 Approval of Minutes – December 8, 2009

Judi Owens made a motion, seconded by Claude Burfect, to approve the December 8, 2009 meeting minutes as submitted. The motion passed unanimously.

Public Comment:
No public comment

Report from the Chair
Chair Steve Hill provided an update on House Bill (HB) 2617, the Boards and Commissions legislation that passed the House and the Senate and is awaiting the Governor's signature. The legislation eliminates the ERBB, along with 45 other boards and commissions. The duties of the ERBB are transferred to the DRS Director effective June 30, 2010. The board will hold its May 25th meeting as scheduled.

Status Reports

B-1 Record Keeping Program Update

Kris Heurich, Senior Vice President ICMA Retirement Corporation (ICMA-RC), provided a status report of the record keeping services for the Plan 3 programs as of December 31, 2009. Her report was a comparison of 2008 and 2009 activities. Member contacts in 2009 decreased by 16 percent from 2008; however, member contacts spiked in October and November due to the issuance of quarterly statements.

Ms. Heurich reported that approximately 12 percent of the members in the self-directed program and 6 percent in the Total Allocation Portfolio (TAP) receive their statements electronically. In 2009, approximately $47 million moved out of the money market fund into the bond fund and the Retirement Strategy Funds. Approximately $67 million moved from the TAP fund to the self-directed funds, compared to about $13 million in 2008.

Board member Judi Owens thanked Ms. Heurich for her reports to the board over the year

B-2 Plan 3 and Deferred Compensation Program Investment Performance

Phil Paroian, Senior Investment Officer for Public Equity at the Washington State Investment Board (SIB), provided an investment report for the Plan 3 and Deferred Compensation (DCP) programs for the quarter ended December 31, 2009. He reported that the fourth quarter 2009 continued to see a bounce back that started in mid-March. Performance of the Plan 3 equity and cash funds very closely matched their benchmarks for the quarter and one-year returns. The Retirement Strategy funds continue to outperform their benchmarks. The performance of the DCP active equity options has been mixed although most met or exceeded their benchmarks.

Board member Judi Owens asked whether the SIB sees trends of members moving money by trying to time the markets. While some members may be making changes for those reasons, Kris Heurich responded that the percentage of members who move their money is very low. Many members don't make any changes to their investment options.

B-3 Plan 3 and Deferred Compensation Program Activity Report

Jeff Wickman, Assistant Director Policy and Strategic Initiatives Division at the Department of Retirement Systems (DRS), reported that contract negotiations have been completed with the companies selected to provide record keeping services for DCP and Plan 3. For Plan 3, the ICMA Retirement Corporation (IMCA-RC) has been retained to provide record keeping. For DCP, the Department has selected Great-West Life & Annuity Insurance Company. Great-West has a strong background providing record keeping for government 457 plans. The project team is beginning the transition of records from ING to Great-West. The target implementation date is July 1, 2010. Members will be notified of the change in the DCP quarterly statement in April closely followed by other communication materials about the transition process and how to sign up with the new record keeper.

Mr. Wickman also reported that all the retirement systems administered by the Department are currently in front of the Internal Revenue Service (IRS) for plan qualification review. The Department's external advisors have confirmed that the filings were received by the IRS. There is no timeframe for when the Department will receive the results of the review.

The Department received a number of letters from Plan 3 members of the School Employees' Retirement System (SERS) and the Public Employees' Retirement System (PERS) regarding contribution rate flexibility. Letter writers requested that PERS and SERS Plan 3 be resubmitted to the IRS asking for approval of an annual contribution rate option similar to that provided to members of Teachers' Retirement System (TRS) Plan 3. A copy of the Department's response explaining that pension plan rate flexibility is governed by federal regulation is available at http://www.drs.wa.gov/news-announcements/default.htm#flex.

B-4 Plan 3 Pension Legislation

Dave Nelsen, Legal and Legislative Services Manager at the Department of Retirement Systems, provided an update on two bills that might indirectly impact Plan 3 members.

- HB 1541 SERS Past Part-Time Service Credit - This bill grants a half-time service credit to qualifying members in Plans 2 and 3 of the Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS) who worked for an educational employer

in school years prior to January 1, 1987. To qualify for service credit under this proposal a member must have:

- Earned service credit between the effective date of the bill and before September 1, 2010;
- Earned at least 630 hours during the school year in question;
- Worked at least nine months of the school year in question;
- Earned less than six months of service credit during the school year in question; and
- Service credit for the school year in question has not been withdrawn.

- HB 1545 Higher Education Retirement Plan - This bill provides eligible employees of the Higher Education Coordinating Board the ability to participate in the Higher Education Retirement Plan instead of the Public Employees' Retirement System.

Presentation

C-1 Implications of Plan Design on Participant Behavior

Ray Decker and Richard Davies, Alliance Bernstein, provided information about how investment menu construction and the implementation approach can impact participant behavior and selection, the problem of choice overload in plan design and how a plan default investment option can improve outcomes for participants.

Most employees are not skilled investors and often are confused by too many investment choices. Studies show that as choices increase participation falls and participants make more conservative choices. Studies also show that people rarely change their initial investment choice. The challenge for plan design is to keep it simple; influence asset allocation through the mix of investment options offered, guide investment selection through enrollment design, automatic enrollment with an opt out provision and offering an appropriate default option.

Board Report

D-1 May 25, 2010 - Tentative Agenda

Chair Steve Hill reviewed the proposed agenda for the May 25, 2010 meeting. The State Investment Board will present the results of their review of the pension fund options for Plan 3 and the Deferred Compensation Program. Chair Hill encouraged all board members to attend the May meeting. He also invited any interested ERBB members to participate on the DRS Advisory Committee. With no further business, the meeting adjourned at 11:30 a.m.

Approved:

Steven R. Hill
Chair